

## Talking to the Liberals

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I received this faxed invitation to speak when Jenny and I were in Beijing last week so I presume that something should be said about China's efforts in turning around a stagnating socialist economy and to perhaps draw some parallels with Australia.

We were in China as participants in the Montreal based "Bank Credit Analyst" Group which started with a two day seminar in Hong Kong evaluating the investment opportunities in the Asian region.

One of the Australian economists present asked why Australia was not included in the list of countries being studied and it was explained in a rather embarrassed fashion that Australia was something of an "odd man out" in the Asian region as our rate of growth was less than half that of most of our neighbors, as is our savings per capita, expressed on a percentage basis.

All very embarrassing as I feel there is a very clear international understanding of the damage done to our economy by our political masters.

Before discussing China, I would like to explain my interest in such matters and then conclude with a brief obituary for Professor F. A. Hayek, the world's leading Classical Liberal Scholar, who died this week within weeks of his 93rd birthday. F. A. Hayek received a Nobel Prize for his outstanding work and last November President Bush awarded him the Presidential Medal of Freedom.

Now I must point out that I am not a member of the Liberal Party however I am an enthusiastic defender of the free - enterprise system and I do favor the Liberal Party over the Labor Party, for the reason that Liberals generally, over the past 20 years, don't seem sure what they believe in, and what they are trying to achieve, or how to achieve it.

(Of course I am not necessarily putting the Liberals in this room into that category).

There appears a general lack of deep understanding of the free-market, limited government and the rule of law in Liberal circles and that may be why history may judge Malcolm Fraser to be our worst Australian Prime Minister of all time.

Although he used some free-enterprise slogans, his only achievement was to give free-enterprise a bad name when his actions failed to match the words.

This general confusion is not the case in the Labor Party where their manifesto clearly spells out their master plan.

That's why Geoff Gallop is the State President of the Fabian Society.

That's why Bob Hawke is the Vice President of the International Socialist Party.

The Labor Party have their International Socialist and their Fabian Societies, "think tanks", for which the Liberals appear to have no equivalent.

If you were present at the Socialist International Conference in Sydney last March, you would have seen me there in the back row fitted up like all the other delegates with the mobile earphone translating device.

I had some difficulty getting in without documentation but when interrogated by the gaunt-faced registration attendant, I admitted to being a "poet of the revolution".

She still wanted to see my identifying documents but accepted my reply that "poets of the revolution don't carry identification".

My interest in attending was simply to see what they have planned for us.

You would have also seen Gough Whitlam, Bob Hawke, Gareth Evans and other prominent members of the ALP and you would have followed the general discussion that as Communism is generally seen to be losing credibility around the world and that their switch to the word Socialism is also losing credibility, they have now redefined their plan under the general term of "social democracy" and all the various Communist Parties in the countries represented at that conference now call themselves "Social Democrats". As a matter of fact, in some of those East European countries the word Communism is in such low esteem that the Communist Party by that name has been outlawed but of course the communist bureaucracy lives on and it's keen to expand membership so they have devised a new recruiting scheme; members who recruit a new member are excused from membership fees for a year. Members who recruit two new members no longer need to remain members themselves. Those who recruit three new members are presented with an engraved silver plaque which states that they were never members in the first place.

They may change the name but they don't change the philosophy and it's the consistency of their philosophy that has enabled them to do so much damage.

Gough Whitlam was a raging success when measured by their standards. He transformed Australia in the vision of H. C. Coombs and the other back-room socialists so that over the three years of Whitlam rule, although productivity rose only 1%, wages rose 70%, the size of the public service rose 12.6%, parliamentary salaries increased by 36%, Federal spending by 80% and inflation to 20%.

He had bought the minds and souls of the public sector and their hangers-on, who now represent one in three of those termed employed, as defined by our official statistics.

When Malcolm Fraser was elected, I understand that one of his intentions was to get rid of H. C. Coombs, because of the damage he had done by influencing so many previous Prime Ministers.

I understand that Coombs got in first by saying "Malcolm, let me show you how you can be re-elected", so another love affair was formed.

Early in the Whitlam days, once it became obvious what long term structural damage was being done to Australia, a group of 12 individuals got together and formed their own political party.

We were from all over Australia and we initially called the party the "Workers Party" with the intent of appealing to the people who we regarded as the real workers of Australia, the productive sector who carried the country on their backs.

The objectives of our party were:

1. To offer an intelligent and practical alternative to socialism as practised and preached by the Labor Party, and as practised by the Liberal and Country Parties.
2. To put principles before votes.

We found that the name Workers Party was too subtle and we subsequently change it to the Progress Party.

We received widespread support and in Western Australia, polled 14% in the State seat of Greenough.

One Senator defected to us from the Liberal Party and there were some other minor electoral successes around the country.

The party still exists as a network of individuals and in some areas of Australia they still field candidates.

Locally we had a more active branch than the Liberal Party at that time, but a lot of support for the party evaporated when Malcolm Fraser was elected Prime Minister and people felt that he was the champion of free-enterprise, simply because David Kemp wrote some free-enterprise words for Mr Fraser's speeches.

However this exercise at forming our own political party was worthwhile, as in drafting our own platform it forced us to read both Liberal and Labor Party platforms, something which many members don't get to do.

To some degree we were successful in similar fashion to the communist party, as although they don't have any elected members as such, they have been successful in having their ideas incorporated into both Labor and Liberal policy.

In the same way many of the Workers Party/Progress Party libertarian policies have been incorporated into both Labor and Liberal policies. In particular the trend toward deregulation, and the adoption of "sunset clauses" in new legislation to limit the life of legislation. (There are still two excellent and very relevant policies that haven't yet been stolen and I would be happy to pass these on to you).

It also brought us into contact with an international network of people and groups with similar free-market philosophy and it was about that time that I realised that there are four main ways for individuals to achieve real political and economic freedom;

1. **Political action** and its use to roll back the power of the State and restore the rights of individuals, and this as Liberals, is your chosen method and it is vital that you perform effectively if our country is to be turned around.
2. **Non-violent, peaceful forms of civil disobedience.** That is against government and bureaucrats, when they go beyond their legitimate functions. I find generally that by being a bit difficult to get on with, the bureaucracy just simply leaves me alone. This suits me.
3. **Economic self-protection and self-preservation.** These are investments or financially structured plans to enable you to protect yourself against inflation and other government policies.
4. **The educational method** which assumes that education is a precondition for any meaningful increase in freedom.

None of us have really got time to pursue all of those four methods of achieving freedom and rolling back the heavy hand of socialism so we have to choose the one with which we are more comfortable. I have chosen the **method of education** and as I haven't got the right to educate or influence anyone other than myself, I have concentrated on seeking out individuals or groups around the world whom I regard as "well-springs of knowledge", I must say it has developed into

something of a long running adventure story, in that it has taken me to many countries and formed many significant friendships.

I know that each one of us learn from perhaps hundreds of people and hundreds of sources but when we analyze it we will find that we are actually influenced by very few, and I mean influenced to the point where you actually revise your way of thinking.

By seeking out these individuals and groups, I have come in contact with several who have actually influenced me (for better or for worse).

Flowing from these contacts has been the opportunity to visit, for in -depth studies, such places as East Berlin in 1982. A study of overseas Enterprise-Zones also 1982, the USSR in 1990 and last week China. These visits have usually been with free-market economists where we have had a chance to ask questions, learn the nature of their problems and see if free-market solutions are appropriate.

In Moscow, with the Washington based Cato Institute we attracted an attendance of 850 Soviet students and intellectuals at one public meeting and we realized how desperate they are to learn how markets operate. Markets had not operated in the USSR since 1917 so no-one remembered how they work.

We found that there was no system of land titles in the USSR, nor was there any legal system for enforcing contracts.

How can you do business on that basis? You can understand the desperate plight of those people.

But we still received the message loud and clear that they do not want government-to-government aid as it only maintains the system from which they are seeking to escape.

I could talk all night about the Russian visit, which had such an emotional effect on me that I have still not completed my notes.

## **China**

In China problems are serious but not as desperate as in the old Soviet Union. There are several main reasons for the difference.

Whilst communism infected the Soviets way back in 1917. That disease only overtook the Chinese in 1949 so there is a whole generation who remember how markets work and how business is conducted.

There is already a vibrant private sector developing despite the best efforts of the Central government to smother it with controls and tax it to death.

People are opting out of their safe and secure Government jobs to go into the new private sector even though there is great difficulty in doing so as they can't leave their Government jobs without written permission.

The Enterprise-Zone areas are expanding rapidly and their success is giving the 1.1 billion Chinese some hope that there will be some other alternative employment for their children, other than the State run enterprises.

The State sector is dead, or at least dying. The Government says that 40% of State Enterprises are loosing money. Outside observers put that figure closer to 80%, but China has 23 million people joining the work force each year.

The Guangdong Enterprise-Zone in Southern China is already surpassing Singapore's GNP and together with China's other enterprise-zones, operating generally on the proven success formula of Hong Kong's free-enterprise economy, could possibly see China replace Japan as the dominate economic force in the Asian region.

However even with all this economic activity we could sense that underneath the calm façade, there was a fierce power struggle taking place.

Another reason why China will progress faster than the Soviet States is the millions of wealthy and successful Chinese business people all around the world who are just waiting for the right conditions, to reinvest in their own home country.

On the other hand that special situation does not exist with the Soviet States so they are looking for Government aid instead.

On that same topic, let me ask a question about which are the three countries where the people prosper best away from their homeland?

The Chinese, the Jews and the Australians.

I never cease to be amazed at the substantial number of successful Australians scattered around the world and if we can create a less oppressive economic environment here we could even get them to return and invest in Australia.

There is need for a "Fightback Mk II" to give us this economic advantage.

Questions I asked publicly related to their definitions of communism and socialism and whether there is any difference between the two.

Their answer was that communism is where the Government owns everything and controls everything. They considered that that had not worked so well, so now they are trying socialism where the Government owns and operated some enterprises but private ownership is also permitted but with a Government licence. They felt that this would work much better.

I mentioned that their definition of socialism accurately described Australia and I hoped that it will work better for them than it has for us.

As in Russia their understanding of the market economy is only an awareness of the economic benefits, without any appreciation of it actually being a more moral system than a socialist dictatorship.

They felt that planning was important and that planning could only be done under socialism.

They found my explanation novel, that under free-enterprise the planning is even more important and that it is not a matter of having a plan or having no plan. The choice between the two systems is simply whose plan.

Under communism/socialism there is only one plan and that is the Central Governments', whilst under free-enterprise, individuals have the freedom to do their own planning.

I asked if their long term plans included giving some freedom to individuals to do their own planning.

After some lengthy debate between themselves (in Chinese) they indicated to us that they didn't like that idea because people might start deciding to purchase TV sets whereas purchasing a

push bike should be their first priority.

So you can see there is some similarity between Chinese socialism and Australian socialism where our Central governments exhibit that fatal conceit of making decisions for people who would be best left to make their own decisions.

### **F. A. Hayek**

This brings me now to the relevance of Prof. F. A. Hayek to the Liberal Party of Australia at this vital time in our country's history.

F. A. Hayek was one of those "well-springs of wisdom" that I referred to earlier and I use the word classical Liberal to describe him to differentiate between the North American term "Liberal" which is used by the socialists to describe themselves because the term socialism is generally unpopular in North America.

F. A. Hayek has been described as the most significant classical Liberal scholar of our times. With his three doctorates (Law, Social Science and Economics) his scope and breadth of writings, all readily available, should give Liberal Party planners full scope for creating a better Australian vision than that which has been presented during the past 20 years.

His teachings have become an inspiration for many East European countries now faced with rebuilding their economy, for example in Poland Janusz Liwandowski, a former Prof. of Economics who is now the Minister for Ownership Changes, first discovered Prof. Hayek in the early 1970's, an experience he describes as a "revelation". "I was looking for something that would make it possible to state clearly the underlying values and the institutions that make up a free society."

Hayek's works can be described as a road map for the movement toward freedom and away from central planning.

Back in 1975 my friend Ron Kitching phoned from Queensland and asked me if I had heard Milton Friedman speak in Australia during his visit that year. We both agreed that Prof. Friedman had injected a ray of light into Australia's economic debate.

Kitching then said "I think Australia is now ready for Hayek and I am expecting you to contribute some cash along with Roger Randerson, Viv Forbes and a few other friends so that we can issue an invitation and cover all expenses."

Prof. (and Mrs) Hayek visited in October 1976 and he gave a series of lectures as well as an ABC "Monday Conference" program. The Centre for Independent Studies in Sydney published these lectures and distributed them widely.

I have since valued personal time spent with Prof. Hayek in Hong Kong in 1978 and in Berlin in 1982 and despite his intellectual stature, he appeared to enjoy talking with "mere mortals" like me. He said that we are closer to reality than many academics, and I know that he sensed the importance of his ideas being expressed in language to which everyone could relate.

During my Berlin, 1982 discussion with Hayek, I actually apologized for "not being an economist". I can clearly recall his response – "Ron, never ever apologize for not being an economist. We economists dream our dreams and our theories but it's people like you that we rely on, to actually do something about it".

His challenge at least made me feel more useful.

Of course this was well before the implosion of communism in the Soviet Union and Central Europe and the turn to market economies there, as well as in Latin America, Asia and even Sweden. All this transformation is linked directly or indirectly to the work that Austrian-born Hayek had done during his long career spanning more than half a century.

Hayek had spent his long life relentlessly developing and promoting the thesis that State control of economic life cannot enhance human well-being; it can only bring misery and poverty. Human well-being, Hayek said, depended upon freedom. And indispensable to freedom is a general legal framework, "the rule of law", that protects property rights and contracts.

To see Hayek's point demonstrated, one needs only look around. Countries are prosperous to the extent that Governments are un-intrusive and taxes are low. Countries suffer poverty and corruption to the extent the State attempts to direct their economic affairs. (Witness Australia's rash of Royal Commissions to see how we have been adversely affected by Government's intrusion into areas where they should not be permitted.)

Hayek has helped us understand why central planning is a fraud doomed to failure because no planner can possess all the knowledge needed to run a modern economy. That knowledge, of supply and demand, of preferences and expectations, is scattered throughout society, much of it incomplete and unarticulated.

Moreover, as time passes and people change, the information becomes obsolete. The economic planner thus is faced with a hopeless task. Even the biggest supercomputer imaginable would be of no help.

The market economy, in contrast does not suffer from a "knowledge problem" because people's freedom to buy and sell generates market prices that encapsulates the necessary knowledge as fully as is possible and leads market participants to new knowledge.

Indeed, as Hayek put it, competition is a "discovery procedure".

He has shown that voluntary exchange and the market process, operating within the rule of law, makes possible a beneficial and stable order for mankind.

I invite all Liberals and supporters of economic and personal freedom, to join with so many others around the world in devouring Hayek's written works as we join hands in leading our societies into a new age of market liberalism.

In a letter last November to Ed Crane, the President of Washington's Cato Institute, the 92 year old Hayek expressed great satisfaction at what he called "the ultimate victory of our side in the long dispute of the principles of the free market" adding that he had "hardly expected to live to experience this".

I am sure that we too are equally surprised that this has happened within our lifetime, but equally conscious of the important task left to each of us to complete this transition to freedom in our own country.